

Auditor-General of South Africa

**Ugu District Municipality and its
entities - Audit report 2016-17**

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Ugu District Municipality and its entities

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the Ugu District Municipality and its entities set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2017, and consolidated and separate the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Ugu District Municipality and its entities as at 30 June 2017, and their financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for all property, plant and equipment, impairment and accumulated impairment for the year, due to the status of the accounting records. I was unable to confirm property, plant and equipment, impairment and accumulated impairment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment stated at R3,93 billion in note 11 to the consolidated and separate financial statements.

Service charges and receivables from exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for all service charge revenue, receivables and related impairments due to inadequate internal controls in the billing process. I could not confirm service charge revenue and receivables by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charge revenue stated at R314,58 million in note 21 and the related receivables from exchange transactions stated at R391,29 million in note 8 to the consolidated and separate financial statements.

Commitments

5. I was unable to obtain sufficient appropriate audit evidence for commitments as management did not maintain accurate and complete records of the contractual information used to determine commitments. I could not confirm commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments stated at R712,75 million in note 43 to the consolidated and separate financial statements.

Infrastructure assets and commitments – Restatement of corresponding amounts

6. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts for infrastructure assets and commitments in the consolidated and separate financial statements. As described in note 46 to the consolidated and separate financial statements, the restatement was made to rectify a previous year misstatement, but it could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the infrastructure assets and commitments corresponding amount stated at R3,64 billion and R802,65 million respectively in the consolidated and separate financial statements.

Context for the opinion

7. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this report.
8. I am independent of the municipality and its entities in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
9. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material losses – water

11. As disclosed in note 53 to the consolidated and separate financial statements, material water losses of R29,59 million (2016: R 27,14 million) were incurred which represents 25,19% (2016: 25,99%) of total water purchased. These losses arose mainly from the tampering with meters, faulty meters and illegal water connections.

Other matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA the municipality and its entities are required to disclose particulars of non-compliance with the MFMA in the consolidated and separate financial statements. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the consolidated and separate financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA, DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the municipality and its entities ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality and its entities or cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

16. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
17. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Introduction and scope

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality and entities. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the consolidated annual performance report of the municipality and its entities for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
Development priority 1 : Basic Service Delivery	11 – 13
Development priority 5 : Local Economic Development	14 – 18

21. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

Other matters

23. I draw attention to the matters below.

Achievement of planned targets

24. The annual performance report on pages 11 to 13 and 14 to 18 includes information on the achievement of planned targets for the year and explanations are also provided for the under achievement of a number of targets.

Adjustment of material misstatements

25. I identified material misstatements in the consolidated annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic service delivery and local economic development priorities. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

26. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality and its entities with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

27. The material findings on compliance with specific matters in key legislation are as follows.

Budgets

28. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R161,20 million, as disclosed in note 50 to the consolidated and separate financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the inadequate budgeting for depreciation as a result of unrecorded assets identified in prior year.

Annual financial statements

29. The consolidated and separate financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of disclosure notes identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected misstatements resulted in the consolidated and separate financial statements receiving a qualified audit opinion.

Procurement and contract management

30. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of Municipal Supply Chain Management regulation, 2005 (MSCMR) 22(1) and 22(2).
31. Some contracts were awarded to bidders based on preference points that were not allocated in accordance with the requirements section 2(b) of the Preferential Procurement Policy Framework Act of South Africa (Act No. 5 of 2000).
32. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of MSCMR 5.

33. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.

Expenditure management

34. Effective steps were not taken to prevent irregular expenditure of R31,17 million as disclosed in note 52 to the consolidated and separate annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure arose because invitations for competitive bidding were not advertised for the required number of days.

Asset management

35. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Consequence management

36. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2) of the MFMA.

Other information

37. The accounting officer of the municipality and its entities is responsible for the other information. The other information comprises the information included in the consolidated annual report which includes the mayor forewords, accounting officer's report and the audit committee's report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.
38. My opinion on the consolidated and separate financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
39. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
40. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

41. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon.
42. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion and the findings on compliance with legislation included in this report.

Leadership

43. The leadership did not exercise effective oversight and monitoring over the implementation of the necessary internal controls over the preparation of the consolidated and separate financial statements and supply chain management processes.

Financial management

44. Material misstatements were identified due to poor record management processes and inadequate reconciliations between the consolidated and separate financial statements and underlying records.

AUDITOR-GENERAL

Pietermaritzburg

19 December 2017



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected development priorities on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality and its entities’ internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the board of directors, which constitutes the accounting authority’s use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ugu District Municipality and its entities, ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality and its entities to cease continuing as a going concern.
 - evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the

consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.